

Meeting of Federal Open Market Committee

July 27, 1971

MINUTES OF ACTIONS

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, July 27, 1971, at 9:30 a.m.

PRESENT: Mr. Burns, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Brimmer  
Mr. Clay  
Mr. Daane  
Mr. Kimbrel  
Mr. Maisel  
Mr. Mayo  
Mr. Mitchell  
Mr. Morris  
Mr. Robertson  
Mr. Sherrill

Messrs. Coldwell, Eastburn, and Swan, Alternate  
Members of the Federal Open Market Committee

Messrs. Heflin, Francis, and MacLaury, Presidents  
of the Federal Reserve Banks of Richmond,  
St. Louis, and Minneapolis, respectively

Mr. Broida, Deputy Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Partee, Economist  
Messrs. Axilrod, Garvy, Scheld, Solomon,  
Taylor, and Tow, Associate Economists  
Mr. Holmes, Manager, System Open Market  
Account

Mr. Kenyon, Deputy Secretary, Office of the  
Secretary, Board of Governors  
Messrs. Altmann and Leonard, Assistant  
Secretaries, Office of the Secretary,  
Board of Governors

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Mr. Cardon, Assistant to the Board of  
Governors  
Messrs. Coyne and O'Brien, Special Assistants  
to the Board of Governors  
Mr. Chase, Associate Director, Division  
of Research and Statistics, Board of  
Governors  
Messrs. Wernick and Williams, Advisers,  
Division of Research and Statistics,  
Board of Governors  
Mr. Keir, Associate Adviser, Division of  
Research and Statistics, Board of  
Governors  
Mr. Gemmill, Associate Adviser, Division of  
International Finance, Board of Governors  
Mr. Wendel, Chief, Government Finance Section,  
Division of Research and Statistics,  
Board of Governors  
Miss Eaton, Open Market Secretariat Assistant,  
Office of the Secretary, Board of  
Governors  
Miss Orr, Secretary, Office of the Secretary,  
Board of Governors

Mr. MacDonald, First Vice President, Federal  
Reserve Bank of Cleveland  
Messrs. Parthemos and Craven, Senior Vice  
Presidents, Federal Reserve Banks of  
Richmond and San Francisco, respectively  
Messrs. Bodner, Willes, Hocter, Andersen,  
and Green, Vice Presidents, Federal  
Reserve Banks of New York, Philadelphia,  
Cleveland, St. Louis, and Dallas,  
respectively  
Mr. Kareken, Economic Adviser, Federal Reserve  
Bank of Minneapolis  
Messrs. Fieleke and Geng, Assistant Vice  
Presidents, Federal Reserve Banks of  
Boston and New York, respectively

By unanimous vote, the minutes of actions taken at the meet-  
ings of the Federal Open Market Committee on June 8 and June 29,  
1971, were approved.

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The memoranda of discussion for the meetings of the Federal Open Market Committee held on June 8 and June 29, 1971, were accepted.

By unanimous vote, the System open market transactions in foreign currencies during the period June 29 through July 26, 1971, were approved, ratified, and confirmed.

By unanimous vote, renewal of the four System drawings on the National Bank of Belgium maturing in the period August 10-26, 1971, was authorized.

By unanimous vote, the open market transactions in Government securities, agency obligations, and bankers' acceptances during the period June 29 through July 26, 1971, were approved, ratified, and confirmed.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following current economic policy directive:

The information reviewed at this meeting suggests that moderate expansion in real output of goods and services is continuing and that unemployment remains substantial. Wage rates in most sectors are continuing to rise at a rapid pace. The rate of advance in both consumer prices and wholesale prices of industrial commodities has stepped up again recently after moderating earlier in the year. In the second quarter inflows of consumer-type time and savings funds at banks and nonbank thrift institutions were large, but below the unusually rapid first-quarter pace. Growth

in bank credit and the broadly defined money stock slowed in the second quarter, but the rate of expansion in the narrowly defined money stock increased. In July, according to partial data, it appears that both bank credit and the narrowly defined money stock are growing at rates close to those of the second quarter, but that expansion in broadly defined money is slowing. While interest rates on most types of long-term market securities have changed relatively little on balance in recent weeks, short-term interest rates have risen further. In mid-July Federal Reserve discount rates were increased by one-quarter of a percentage point to 5 per cent. The deficit in the U.S. balance of payments remained extraordinarily large in the second quarter, mainly reflecting capital outflows related to expectations of shifts in foreign exchange rates and the development of a substantial deficit in the merchandise trade balance. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable economic growth, while encouraging an orderly reduction in the rate of inflation, moderation of short-term capital outflows, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, taking account of the current Treasury financing and of developments in capital markets, the Committee seeks to achieve more moderate growth in monetary aggregates over the months ahead. System open market operations until the next meeting of the Committee shall be conducted with a view to achieving bank reserve and money market conditions consistent with those objectives.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 24, 1971, at 9:30 a.m.

The meeting adjourned.

  
Deputy Secretary